5/12/88 U4110-1

PENNSTATE

College of Business Administration

Published since 1938

Pennsylvania Business Survey

April 1988

TRENDS REMAIN ENCOURAGING IN FEBRUARY

February brought with it further evidence that **economic activity in Pennsylvania continues to remain at a relatively high level.** Past issues of the *Survey* have tended to describe the economy as being in a "modest" or "moderate" growth phase but recent evidence suggests that such descriptors can be safely discarded, at least for now, as the economy may be more accurately described as growing at a more healthy pace. While conditions certainly are not booming, solid gains continue to be recorded, just as they have been for the past several months.

Despite a drop in the unemployment rate from a seasonally adjusted 5.7 percent in January to 5.2 percent in February, conditions on the employment/unemployment front held fairly steady. Indeed, at 5.48 million, seasonally adjusted, the number of Pennsylvanians counted as employed during the month was down an insignificant 9,000 from January. Year-ago comparisons illustrate nicely the rather impressive gains turned in by the economy as of late. In absolute terms, **the year-over-year employment gains of approximately 230,000 recorded over the past three months are, by far, the most impressive gains in recent memory.**

In that the number of initial claims for unemployment benefits continues to decline, just as it has since the end of the recession about five years ago, joblessness should continue to drop. Normally, an ensuing rise in unemployment is signalled by an extended increase in the number of initial claims.

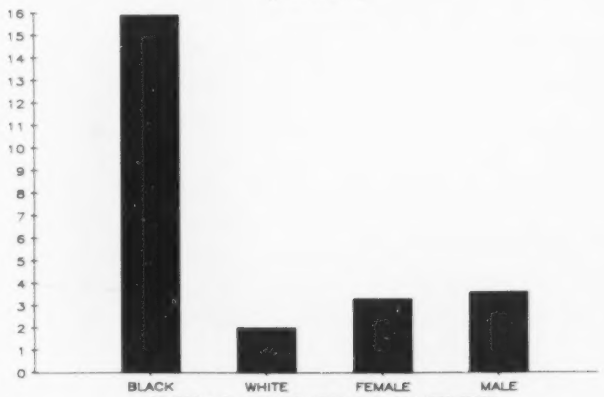
An examination of trends according to race and sex highlight some rather interesting patterns. For instance, while a solid performance has been turned in with respect to employment growth by Pennsylvania's black residents recently, the unemployment rate for the black population continues to remain stubbornly high. Specifically, 1987:IVQ data show that, at 11.2 percent, the black jobless rate remains more than twice as high as the comparable figure for the white population (see chart). Such a gap has existed throughout the current economic recovery which began around 1982/1983.

Furthermore, the vast majority of the highest unemployment rates at the county level are concentrated in the western half of the Commonwealth. In light of these discrepencies, **it is still quite apparent that, despite the rash of good news of late on the employment/unemployment front, problems still remain.**

Although there was a slight drop of 2,000 in the number of manufacturing jobs, to a seasonally adjusted 1,054,000, **overall trends in Pennsylvania's factories remain encouraging.** February's drop represents the first such decline since last August, so it should certainly not be a major cause for concern. Trends in several other indicators of manufacturing's health, such as the average workweek, total hours worked, total payrolls, and electricity sales to industry, also suggest that the factory sector took a breather in February. Again, however, the trend in these indicators over the past several months has also been up and is likely to continue to improve in the near future.

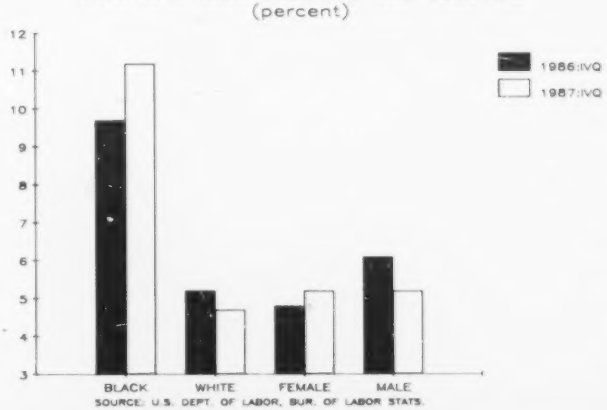
Many times in the past, we have cautioned against focus-

PA EMPLOYMENT GROWTH RATES BY RACE AND SEX: 1986:IVQ-1987:IVQ
(percent)



SOURCE: U.S. DEPT. OF LABOR, BUR. OF LABOR STATS.

PA UNEMPLOYMENT RATES BY RACE AND SEX: 1986:IVQ AND 1987:IVQ
(percent)



SOURCE: U.S. DEPT. OF LABOR, BUR. OF LABOR STATS.

ing too much on job levels in gauging the overall strength of the manufacturing sector. **In light of productivity increases and input substitution, many argue that the job numbers do not portray an adequate picture of industrial production.** Indeed, as shown in the accompanying chart, while there has been an unmistakable long-run decline in the number of manufacturing positions, the "trend line" with respect to electricity sales to industry, a good proxy for production trends, appears to be horizontal, implying that production is holding its own despite the loss of jobs.

With this issue of the *Survey*, we introduce additional information which will be helpful in tracking the State's factory sector: average hourly and weekly earnings by production workers. Recent trends in these two series have been quite interesting. Without a doubt, average hourly and weekly earnings, in current or nominal dollars, have been on the rise. In fact, **earnings have nearly tripled since the early 1970s. However, when price gains are taken into account, real earnings have only held steady. In other words, buying power has not increased.**

Nonmanufacturing activity continues to show signs of increasing, especially in the services area. All told, there were a seasonally adjusted 3.94 million positions maintained in the Commonwealth's nonmanufacturing establishments, up by 2,000 from January. The services industries again turned in a solid showing as they added about 7,000 workers after adjusting for normal seasonal trends.

The rather large seasonally adjusted decline in State and

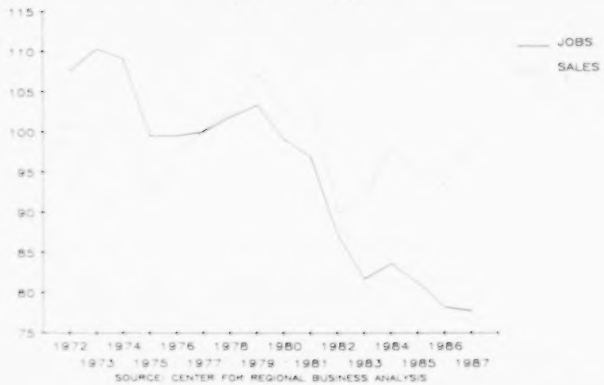
Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1988		1987	1988		1987	1988		1987
	Jan.	*Feb.*	*Feb.*	*Jan.*	*Feb.*	*Feb.*	*Jan.*	*Feb.*	*Feb.*
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	4,908*	4,909	4,776	4,995*	4,996	4,864	109.4*	109.4	106.5
Nonmanufacturing									
No. of wage and salary jobs (thous.)	3,860*	3,862	3,749	3,939*	3,941	3,829	122.2*	122.3	118.8
Mining	29*	29	31	31*	31	32	63.9*	63.7	67.1
Contract construction	202*	197	187	227*	228	217	123.2	123.7	117.8
Transportation	139*	138	138	142*	140	140	88.1	87.1	87.1
Public Utilities	105	105	103	105	105	103	103.8	104.5	102.6
Wholesale trade	265*	265	258	268*	269	262	120.6	121.5	118.1
Retail trade	858*	843	822	871*	871	850	121.5*	121.4	118.5
Finance, insurance & real estate	292*	291	286	295*	295	290	135.4	135.7	133.1
Service & miscellaneous	1,286*	1,298	1,237	1,308*	1,315	1,253	151.6	152.4	145.3
Federal government	143*	143	138	144*	143	139	112.1*	111.8	108.6
State & local government	543*	552	550	551*	545	543	94.5*	93.5	93.1
Manufacturing									
No. of wage and salary jobs (thous.)	1,046*	1,044	1,025	1,056*	1,054	1,035	78.7*	78.6	77.2
Durable goods	596*	594	578	602*	601	585	74.4*	74.3	72.2
Nondurable goods	450*	450	448	454	453	451	85.4*	85.1	84.7
Ave. wkly. hrs. worked by prod. workers	40.9	40.8	40.5	41.1	41.0	40.7	104.0	103.9	103.0
Total wkly. person-hours worked (mils.)	29.1*	29.1	28.1	29.6	29.5	28.5	77.1*	76.9	74.3
Total wkly. payroll (mil. dols.)	296.3*	294.9	276.2	300.2	299.7	280.6	133.6	133.4	124.9
Average hourly earnings (dollars)	10.17	10.15	9.84	10.16	10.12	9.81	173.7*	173.0	167.7
Average weekly earnings (dollars)	415.95	414.12	398.52	416.78	417.04	401.05	180.2*	180.3	173.4
Steel production (thous. tons)	1,110	1,065	628	n.a.	n.a.	n.a.	54.3	46.9	28.7
Industrial electric power sales (mil. kwh)	3,718	3,851	3,412	3,778	3,702	3,417	102.3	100.2	92.5
Mining									
Anthracite coal (thous. net tons)	274	341	264	335	412	331	68.5	84.4	67.9
Bituminous coal (thous. net tons)	5,364	5,260	5,838	5,567	5,129	6,089	78.9	72.7	86.3
Construction contracts awarded (mil. dols.)									
Total	562.0	491.1	501.2*	918.1	769.7	749.3*	285.4	239.2	232.9*
Residential building	269.2	235.9	174.0*	538.8	416.1	321.0*	382.8	295.7	228.1*
Nonresidential building	186.1	190.1	158.6*	234.5	283.3	243.6*	216.2	261.2	224.5*
Nonbuilding (utilities and public works)	106.6	65.1	168.6*	144.8	70.3	184.7*	199.8	97.0	254.9*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,372	5,319	5,082	5,489	5,480	5,247	114.2	114.0	109.2
Unemployed									
No. of persons (thous.)	356	334	349	327	300	311	81.4	74.8	77.7
Rate (percentage of labor force)	6.2	5.9	6.4						
Rate, seasonally adjusted				5.7	5.2	5.6			
Civilian labor force, no. of persons (thous.)	5,728	5,653	5,431	5,816	5,780	5,559	111.7	111.0	106.8
Initial claims for unemployment benefits	143,595	88,638	91,710	94,272	92,706	102,598	65.8	64.8	71.7

Consumer Prices, all items	Urban Indexes (1982-84 = 100)			Percentage Change	
	1988		1987	*Month Ago*	*Year Ago*
	Jan.	*Feb.*	*Feb.*		
U.S. city average	115.7	116.0	111.6	+0.3	+3.9
Philadelphia	119.3	119.3	113.9	0.0	+4.7
Pittsburgh	n.a.	113.3	109.8	n.a.	+3.2

[1] Total includes workers on strike. * = figure revised

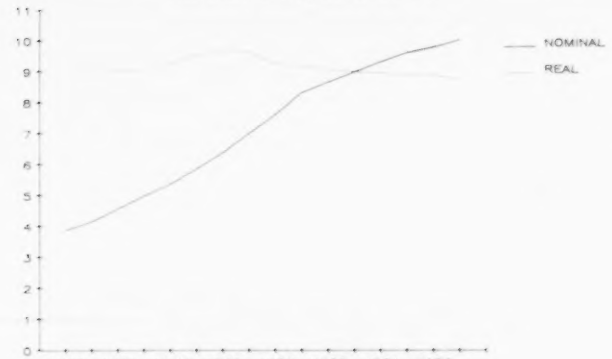
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

PA MANUFACTURING JOBS AND ELECTRICITY SALES TO INDUSTRY
(1977=100)



SOURCE: CENTER FOR REGIONAL BUSINESS ANALYSIS

NOMINAL (dollars) AND REAL (1982-1984 dollars)
HOURLY EARNINGS IN PA



SOURCE: DEPT. OF LABOR AND INDUSTRY; CENTER FOR REGIONAL BUSINESS ANALYSIS

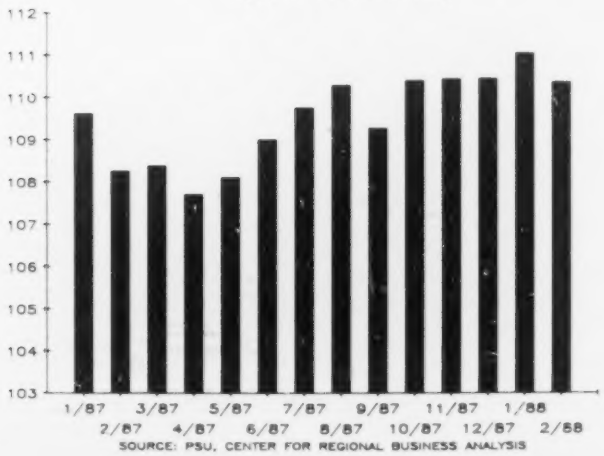
local government positions deserves some attention. Job levels in these establishments drop considerably each January, largely because many colleges and universities remain closed for an extended period of time following the Christmas holiday, before increasing again in February. Indeed, that was the case this year. Job levels dropped by 13,000 in January and increased by 9,000 in Febrary. However, in that February usually brings with it a gain of 15,000, the end result was a seasonally adjusted decline of 6,000 jobs.

Construction activity continued to slow in Pennsylvania this past February as the value of contracts awarded fell for the fifth time in the past six months. The February decline was concentrated in the residential and nonbuilding sectors as nonresidential building contracts rose in value. It should be noted that the value of construction contracts awarded is subject to wide swings, especially in the typically slow winter months. In all likelihood, we will have to wait until activity picks up in the spring to obtain a more reliable reading of trends in this all-important industry.

The index of leading indicators has held fairly steady for the past several months, suggesting that the economy is in little danger of slumping considerably. At the same time, there are few signals suggesting that growth will accelerate anytime soon.

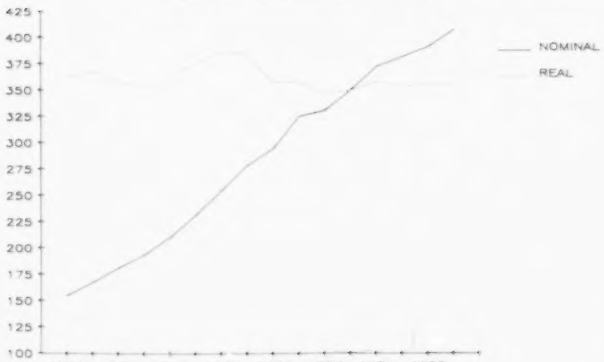
— William D. Anderson

PENNSYLVANIA COMPOSITE INDEX OF LEADING INDICATORS
(Jan 1972=100)



SOURCE: PSU, CENTER FOR REGIONAL BUSINESS ANALYSIS

NOMINAL (dollars) AND REAL (1982-1984 dollars)
WEEKLY EARNINGS IN PA



SOURCE: DEPT. OF LABOR AND INDUSTRY; CENTER FOR REGIONAL BUSINESS ANALYSIS

Retail Sales Report

Last year brought with it further good news on the retail sales front in Pennsylvania as a fairly healthy 6.8 percent gain pushed sales to $72.6 billion. Although this translates into the smallest increase since 1982, it does represent the third consecutive year in which sales growth in the Commonwealth has outpaced the U.S. as a whole. Nationally, growth came in at 3.6 percent. Durable goods purchases led the way as they advanced at an 10.8 percent clip last year compared to a 4.5 percent increase in the nondurable goods category.

Additionally, last year's retail sales performance also resulted in "real" or inflation-adjusted increases. After discounting for price increases, retail sales in Pennsylvania grew at a 2.6 percent rate while sales at the national level were essentially unchanged from 1986 readings (see chart).

Much has been made of the response of the economy, and especially consumers, to the August-October stock market

Pennsylvania retail sales (millions of dollars)

	Retail sales	Pct. change from yr. ago	Durable goods	Pct. change from yr. ago	Nondur. goods	Pct. change from yr. ago
1987:IVQ	20,133	7.0	7,078	11.0	13,055	4.9
1987:IIIQ	18,520	6.8	7,309	10.6	11,211	4.5
1987 YTD	72,571	6.8	26,595	10.8	45,976	4.5

Data are preliminary.
Source: U.S. Dept. of Commerce, Bureau of the Census